

Subcommittee on Financial Reform
Staff Report on Balanced Budget by James Ingram

The full Committee voted to amend the work-plan to include consideration of the issue of a balanced budget requirement.

Should the City include within the Charter language requiring a balanced budget?

DISCUSSION OF THIS ITEM:

Taxes and Revenues

At present, Charter Section 75 does require the Council to set taxes at a level sufficient to meet budget requirements.

If the Committee decided to recommend inclusion of a balanced budget mandate among its reforms, then Section 68 would likely be the best place in the charter for a “balanced budget” requirement. The inclusion of “balanced budget” language could be a political benefit, and could be drafted so as not to interfere with the current charter requirements regarding bonded indebtedness.

There is a great deal of unhappiness with the financial situation that the City has gotten into through past decision-making. Inclusion of language mandating a balanced budget would likely be a popular concept.

California Law

FYI: At present, California cities are subject to the Prop 13, Prop 218 and Gann Limits provisions of the State Constitution (Articles XIII A and XIII B). As the Berkeley City Manager indicates in that city’s “Glossary of Budget Terms,” a California city’s budget is limited in the following manner:

“Spending Limitation (Gann Limit) – Article XIII B of the California Constitution establishes a spending limitation on government agencies within California. The spending limit is a mandated calculation of how much the City is allowed to expend in one fiscal year. The amounts of appropriations subject to the limit are budgeted proceeds of taxes. The total of these budgeted revenues cannot exceed the total appropriations limit. Annually, local governments may increase the appropriate limit by a factor comprised of the change in population combined with the California inflation rate as determined by the State Finance Department.”

<http://www.ci.berkeley.ca.us/budget/GlossaryofTerms.html> accessed on June 7, 2007.

Other Relevant Charter Sections

Charter Section 92 does not permit the city to incur obligations in excess of its constitutional authority (Gann Limits).

Charter Section 99 requires that all votes to create debt be either accompanied or preceded by establishment of a tax to pay off the principal and interest of such debts.

Current Charter Sections Relevant To The Issue Of Whether "Balanced Budget" Requirements Need To Be Added:

"SECTION 68.

BUDGET AND ACCOUNTING SYSTEM.

A complete budget and accounting system of municipal receipts and expenditures is hereby established.

(Amendment voted 04-21-53; effective 05-29-53.)"

"SECTION 75. ANNUAL TAX LEVY.

The Council shall adopt, not later than the last day in August of each year, an ordinance levying upon the assessed valuation of all property in the City, a rate of taxation sufficient to raise the amount estimated to be required in the annual budget and as herein provided, less the amounts estimated to be received from fines, licenses, and other sources of revenue, using as a basis the value of the property as assessed by the County Assessor, as the same may be equalized and returned to the Council by County Auditor as provided by general law. The Council shall immediately thereafter transmit to the County Auditor of the County of San Diego, a statement of such rate or rates so fixed by it.

(Amendment voted 11-04-75; effective 12-01-75.)"

"SECTION 92. BORROWING MONEY ON SHORT TERM NOTES.

Bonds or notes may be issued in anticipation of the collection of special assessments, and bonds, notes, or registered warrants on the treasury may be issued in anticipation of the collection of taxes and revenues, as authorized by the City Council by resolution and shall not be deemed the creation of debt within the meaning of Section 90727 of this Article. Bonds, notes or registered warrants on the treasury issued in anticipation of the collection of the taxes and revenues of any fiscal year may be issued during each fiscal year and each such bond, note, or warrant shall specify that it is payable out of the taxes of the fiscal year in which issued, and shall not bear a higher rate of interest than the maximum rate established by Council Resolution within the legal limit, and the total amount of such bonds, notes or warrants, authorized and issued in any fiscal year shall not, in the aggregate, be more than twenty-five (25) per cent of the total appropriations of the City for such year. Nothing herein contained shall be construed to authorize the incurring of an obligation against the municipality in excess of that authorized to be incurred by the Constitution of the State of California.

(Amendment voted 11-06-62; effective 01-21-63.)

(Amendment voted 09-21-65; effective 02-10-66.)

(Amendment voted 06-03-80; effective 07-16-80.)
(Amendment voted 11-06-90; effective 02-19-91.)"

"SECTION 99. CONTINUING CONTRACTS.

The City shall not incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year unless the qualified electors of the City, voting at an election to be held for that purpose, have indicated their assent as then required by the Constitution of the State of California, nor unless before or at the time of incurring such indebtedness provision shall be made for the collection of an annual tax sufficient to pay the interest on such indebtedness as it falls due, and also provision to constitute a sinking fund for the payment of the principal thereof, on or before maturity, which shall not exceed forty years from the time of contracting the same; provided, however, anything to the contrary herein notwithstanding, when two or more propositions for incurring any indebtedness or liability are submitted at the same election, the votes cast for and against each proposition shall be counted separately, and when the qualified electors of the City, voting at an election for that purpose have indicated their assent as then required by the Constitution of the State of California, such proposition shall be deemed adopted. No contract, agreement or obligation extending for a period of more than five years may be authorized except by ordinance adopted by a two-thirds' majority vote of the members elected to the Council after holding a public hearing which has been duly noticed in the official City newspaper at least ten days in advance.

(Amendment voted 04-22-41; effective 05-08-41.)
(Amendment voted 06-04-68; effective 07-22-68.)"